

Micro-Mechanics (Holdings) Ltd

A record in both revenue and profits



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SINGAPORE | TECHNOLOGY | 1Q18 RESULTS

31 October 2017

- 1Q18 revenue and earnings were double the growth rate we expected.
- We raise our FY18e earnings by 18% to S\$21.7mn. This comes from an upward revision to our forecast in sales growth, from 11% to 25% in FY18e.
- Our target price is raised to S\$2.50, or 16x PE FY18e. This is in-line with back-end semiconductor valuations.

Results at a glance

S\$ mn	1Q18	1Q17	YoY (%)	Comment
Revenue	17.7	13.3	33.1%	More than doubled our expectations of 11% growth
Gross profit	10.8	7.6	42.1%	Margins expanded due to higher utilisation rate of 64% (1Q17:56%) and turnaround in US operations.
Admin. Exp.	(2.5)	(1.9)	31.6%	Rose due to higher bonus incentive accruals.
PATMI	5.2	3.4	52.9%	More than doubled our expectations of 24% growth
Gross margin	61.0%	57.1%	6.8%	

Source: Company, PSR

The Positives

+ **Revenue and earnings growth more than double our expectations.** We were modelling revenue and earnings growth of 11% and 24% respectively. 1Q18 growth was more than double the pace we had anticipated.

+ **Development of front-end precision parts is making headway.** Sales from US division surged 58% YoY in 1Q18 and it represented the 2nd consecutive quarter of profits.

The Negatives

- **Administrative expense is running ahead of our expectations.** Admin expense was higher than expected due to accruals of bonus incentives. As a % of sales, admin expense is still below FY17. We had pencilled in less variability in admin expenses.

- **Capex to double.** To cope with the rise in demand and utilisation rate, Micro-Mechanics (MMH) is budgeting a capital expenditure of S\$10mn for FY18. This is double last year's S\$5mn.

Outlook

MMH revenue growth is closely tied to the industry semiconductor sales cycle. We expect the current momentum in sales to sustain, in-line with the current synchronized growth in global economies. Visibility is never perfect for the semiconductor cycle. But we take comfort that the current double-digit surge in semiconductor sales began in earnest only in Dec16. So we at least have another quarter ahead of easier comps. Furthermore, in the last two semiconductor cycles, the positive YoY growth ran for 20 and 26 months. The current cycle is only 13 months.

Maintain BUY rating with target price raised to S\$2.50

We maintain our BUY recommendation. We raised our target price to S\$2.50. This is in-line with our 18% upward revision in FY18e earnings and increase in PE ratio to 16x (previously 15x). Our PE ratio is tied to the sector valuations for the semiconductor back-end.

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BUY (Maintained)

LAST TRADED PRICE	SGD 2.03
FORECAST DIV	SGD 0.08
TARGET PRICE	SGD 2.50
TOTAL RETURN	27.1%

COMPANY DATA

BLOOMBERG	MMH SP
O/S UNITS (MN) :	139
MARKET CAP (USD mn / SGD mn) :	207 / 282
52 - WK HI/LO (SGD) :	2.05 / 0.83
3M Average Daily T/O (mn) :	0.07

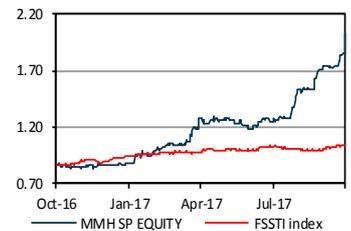
MAJOR SHAREHOLDERS (%)

SARCADIA LLC	27.1%
CHRIS BORCH	25.4%
LOW MING WAH	5.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	8.8	48.4	127.8
STI RETURN	4.7	2.2	23.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS (MMH SP)

SGD mn	FY16	FY17	FY18e	FY19e
Revenue	51.3	57.2	71.5	80.1
EBITDA	20.1	22.5	32.2	37.3
NPAT	11.9	14.8	21.7	25.5
EPS (SGD)	0.09	0.11	0.16	0.18
PER, x	23.7	19.1	13.0	11.0
P/BV, x	4.3	3.9	4.4	3.7
DPU (SGD)	0.06	0.07	0.08	0.08
DVD YIELD (%)	3.0	3.4	3.9	3.9
ROE (%)	24.5	28.2	36.5	36.3

Source: Bloomberg, PSR

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Income Statement

Y/E Jun, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	52.1	51.2	57.2	71.5	80.1
EBITDA	18.5	19.5	22.1	32.2	37.3
Depreciation & Amortisation	(4.6)	(4.4)	(4.3)	(4.9)	(5.0)
EBIT	13.9	15.1	17.8	27.3	32.2
Net Finance Inc/(Exp)	0.0	0.0	0.0	0.0	0.0
Profit before tax	15.3	15.7	18.5	27.8	32.7
Taxation	(3.3)	(3.8)	(3.7)	(6.1)	(7.2)
Net profit before NCI	12.0	11.9	14.8	21.7	25.5
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Net profit, reported	12.0	11.9	14.8	21.7	25.5

Per share data (SGD)

Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	0.086	0.086	0.106	0.156	0.184
DPU	0.05	0.06	0.08	0.08	0.08
BVPS	0.34	0.36	0.39	0.46	0.55

Cash Flow

Y/E Jun, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	15.3	15.7	18.5	27.8	32.7
Depreciation & Amortisation	4.6	4.4	4.3	4.9	5.0
WC changes	(3.0)	(0.6)	(0.6)	(2.4)	0.6
Net finance inc/(exp)	(0.1)	(0.1)	(0.1)	0.0	0.0
Tax paid	(2.3)	(3.2)	(3.9)	(6.1)	(7.2)
Others	(0.5)	0.0	(0.2)	0.0	0.0
Cashflow from ops	14.1	16.3	18.1	24.1	31.2
CFI					
CAPEX, net	(4.9)	(4.1)	(5.1)	(10.0)	(5.0)
Others	0.6	1.2	0.4	0.2	0.0
Cashflow from investments	(4.3)	(2.9)	(4.7)	(9.8)	(5.0)
CFE					
Share issuance, net	0.0	0.0	0.0	0.0	0.0
Loans, net of repayments	0.0	0.0	0.0	0.0	0.0
Dividends	(5.5)	(6.9)	(9.7)	(12.5)	(12.5)
Others	0.0	0.0	0.0	0.0	0.0
Cashflow from financing	(5.5)	(6.9)	(9.7)	(12.5)	(12.5)
Net change in cash	4.9	5.7	3.5	1.6	13.7
CCE, end	15.9	20.8	23.5	25.0	38.7

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jun, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	26.6	25.5	26.1	27.2	27.1
Others	0.3	0.1	0.4	0.4	0.4
Total non-current assets	26.9	25.6	26.5	27.6	27.5
Accounts receivables	10.1	10.3	11.9	12.9	14.9
Cash	15.1	20.0	23.4	25.0	38.7
Inventories	3.5	3.2	3.6	4.9	5.0
Others	0.1	0.2	0.0	0.0	0.0
Total current assets	28.8	33.7	38.9	42.9	58.6
Total Assets	55.7	59.3	65.4	70.4	86.1
LIABILITIES					
Accounts payables	6.0	5.9	7.8	7.7	10.3
Short term loans	0.0	0.0	0.0	0.0	0.0
Others	1.5	1.6	1.3	1.3	1.3
Total current liabilities	7.5	7.5	9.1	9.0	11.6
Long term loans	0.0	0.0	0.0	0.0	0.0
Others	1.3	1.5	1.7	1.7	1.7
Total non-current liabilities	1.3	1.5	1.7	1.7	1.7
Total Liabilities	8.8	9.0	10.8	10.7	13.3
EQUITY					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	46.8	50.2	54.7	63.8	76.9

Valuation Ratios

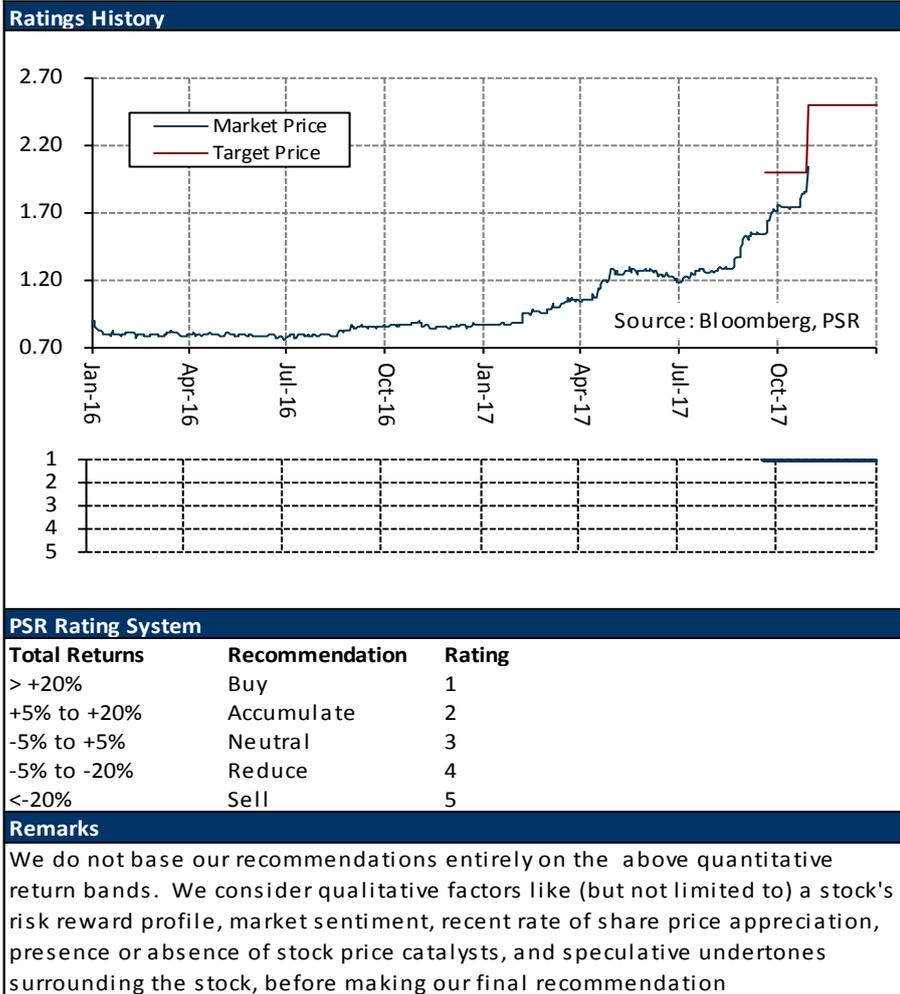
Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
P/E (X)	23.5	23.7	19.1	13.0	11.0
P/B (X)	6.0	5.6	5.2	4.4	3.7
EV/EBITDA (X)	156.8	148.5	130.9	89.8	77.2
Dividend Yield	2.5%	3.0%	3.9%	3.9%	3.9%

Growth & Margins

Growth					
Revenue	18.9%	-1.7%	11.7%	25.0%	12.0%
EBITDA	42.3%	5.4%	13.3%	45.7%	15.8%
EBIT	59.8%	8.6%	17.9%	53.1%	18.3%
Net profit, adj.	55.8%	-0.8%	24.4%	46.3%	18.0%
Margins					
EBITDA margin	35.5%	38.1%	38.6%	45.0%	46.6%
EBIT margin	26.7%	29.5%	31.1%	38.1%	40.3%
Net profit margin	23.0%	23.2%	25.9%	30.3%	31.9%

Key Ratios

ROE (%)	1.8%	24.5%	28.2%	36.5%	36.3%
ROA (%)	0.9%	20.7%	23.7%	31.9%	32.6%
Net Debt / (Cash)	(15)	(20)	(23)	(25)	(39)
Net Gearing (X)	Net Cash				



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